IN THE UNITED STATES DISTRICT COURT
FOR THE EASTERN DISTRICT OF PENNSYLVANIA

WILLIAM A. GRAHAM COMPANY	:	CIVIL ACTION
v.	:	
THOMAS P. HAUGHEY, et al.	:	NO. 05-612

MEMORANDUM

Bartle, C.J. November 21, 2006

Plaintiff William A. Graham Company ("Graham"), an insurance brokerage firm, filed this action against defendants Thomas P. Haughey ("Haughey"), a former employee of Graham, and USI Midatlantic, Inc. ("USI"), an insurance brokerage firm and Haughey's current employer. Plaintiff alleged that defendants infringed Graham's copyrights in its "Standard Survey and Analysis" and "Standard Proposal."[1] After trial, the jury returned a verdict in Graham's favor on its copyright infringement claim and awarded damages in the amount of $16,561,230 against defendant USI and $2,297,397 against defendant Haughey. Now pending before the court are: (1) defendants' renewed motion for judgment as a matter of law under Rule 50(b) of the Federal Rules of Civil Procedure, or, in the alternative, for a new trial under Rule 59; (2) plaintiff's

1. Plaintiff also included in its complaint a claim for breach of contract against defendant Haughey. Plaintiff alleged that he violated certain restrictive covenants in his employment agreement with Graham. Plaintiff withdrew the claim during trial.

motion for pre-judgment interest; and (3) plaintiff's motion for post-judgment interest.

I.

In considering defendant's motion for judgment as a matter of law, the court must view the evidence, along with all inferences therefrom, in the light most favorable to the verdict winner, in this case, the plaintiff. Alexander v. Univ. of Pittsburgh Med. Cnt. Sys., 185 F.3d 141, 145 (3d Cir. 1999).

Graham, as an insurance brokerage firm, provides property and casualty insurance services to businesses. When soliciting a prospective client, Graham typically prepares a risk management study, called a "survey and analysis," which evaluates the prospective client's insurance needs. If after receiving the individualized survey and analysis a client wishes to proceed further, a written proposal is prepared. The proposal contains coverage recommendations for the client as well as the cost of the recommended insurance. If acceptable to the client, Graham then places the client with an insurance company or companies which will actually write the insurance. Graham receives commissions from the insurance companies which issue the policies.

Graham's producers incorporate language from its Standard Survey and Analysis and its Standard Proposal (collectively the "Works") into the individualized survey and analysis and proposal prepared for each client. The allegations in this case stem from the use and copying of the Works by the defendants in connection with their business activities.

The Works, which consist of hundreds of pages contained in two binders, are derived from a document Graham developed in the 1980's, which it called the Standard Paragraphs. Graham employees used the language in the Standard Paragraphs to prepare surveys and analyses and proposals. At that time, Graham typically prepared one to two proposals each month for new clients. The proposals created from the Standard Paragraphs and delivered to clients did not contain any copyright notice, and Graham did not impose any contractual limitation on the client's use of the proposal. In 1990, some of the language in the Standard Paragraphs was combined with new material to create the Works. It was at this time that Graham first affixed copyright notices and began to place copyright notices on individualized proposals prepared for and distributed to clients.

On February 21, 1995, Graham filed two applications with the United States Copyright Office to register copyrights in certain portions of the Works. While the entire Works were attached to the applications, Graham told the Copyright Office that it did not claim a copyright in that part of the material which it highlighted in green. This highlighted material was described by Graham as "created and published prior to March 1, 1989, without notice of copyright, and is therefore in the public domain." Graham only claimed a copyright in revisions of the Works which were made in the years 1990 through 1994 and which were published, it said, on December 13, 1994. Such revisions were highlighted in purple, pink, blue, yellow, and brown, each color representing the specific year in which the revision was made. In both applications Graham described the color-coded versions of the Works in which it was claiming copyright as "consist[ing] of editorial revisions and modifications to the original work of authorship (highlighted in green)."

On March 30, 1995, the copyright examiner informed Graham's counsel that registration of the Works was being delayed because it was unclear in which portions Graham wished to register copyrights. Graham submitted a revised application for the Standard Proposal on December 19, 1995, stating that it desired to register a copyright in the "new and revised text." Subsequently, the Copyright Office issued two certificates of registration, effective February 21, 1995, for those portions of the Works in which copyright was claimed. On October 23, 2000, Graham filed two applications for supplementary registration of the Works with the Copyright Office. In these applications, Graham identified what it characterized as errors in the original 1995 registration applications. The Copyright Office issued two supplementary certificates of registration for the Works, effective October 25, 2000, based upon Graham's supplementary applications.

From January, 1985 through September, 1991, defendant Thomas Haughey worked for Graham as a producer. During Haughey's employment with Graham he was one of eight employees who were given copies of the Works, and he used them extensively in his work with clients. On September 11, 1991, Graham and Haughey entered into an agreement to terminate Haughey's employment. It included a provision that Haughey "reaffirms his continuing obligation, to abide by the terms, conditions and restrictions of the provisions of Paragraphs 3, 4 and 5 of the [1989 Employment Agreement]." These paragraphs prohibited Haughey from disclosing company information and retaining company documents after termination.

Upon leaving Graham, Haughey went to work at another insurance brokerage firm, Flanigan, O'Hara, Gentry & Associates ("FOG"). Haughey took with him to FOG a set of the binders containing the Works. At FOG, Haughey copied language from the Works in preparing written proposals for new clients. At some point in 1994 or 1995, FOG hired a temporary employee for the specific task of typing the language of the Works into its computer system. Paper copies were also distributed to employees at FOG. In March, 1995, USI Holdings acquired and merged with two other entities to create USI Midatlantic, Inc., the corporate defendant in this case. The Works were available to and used by USI employees. Defendants admit to incorporating portions of the Works into over 850 written proposals prepared for 315 clients. Graham learned of the copying in November, 2004, when it received a proposal from a client of the defendants while attempting to solicit that client's business. Graham filed this action for copyright infringement on February 8, 2005.

After a five day trial and after denying the defendant's motion for judgment as a matter of law, the court submitted special interrogatories to the jury. The first interrogatory asked: "Has plaintiff William A. Graham Company proven, by a preponderance of the evidence, that defendants USI MidAtlantic, Inc. and Thomas P. Haughey infringed any copyright plaintiff has in either the Standard Survey and Analysis or the Standard Proposal?" The jury answered "yes." The second interrogatory asked: "Prior to February 9, 2002, should plaintiff have discovered, with the exercise of reasonable diligence, that defendants were infringing its copyrights?" The jury responded "no." The final interrogatory dealt with damages: "What is the total amount of each defendant's profits attributable to the infringement, if any, that each defendant earned?" The jury found that defendant USI had earned $16,561,230 in profits attributable to the infringement and that defendant Haughey had earned $2,297,397 in such profits. Based on the jury's answers to these Special Interrogatories, the court entered judgment in favor of Graham and against the defendants in these amounts.

II.

Defendants, in support of their renewed motion for judgment as a matter of law under Rule 50(b), argue that the evidence is insufficient to support the jury's verdict of infringement. In particular, defendants maintain that Graham failed to produce adequate evidence to prove that the Works qualify for copyright protection as derivative works and that plaintiff failed to meet its burden to prove a legally sufficient causal connection between any copyright infringement and the defendants' indirect profits found by the jury.

Rule 50 provides that judgment as a matter of law should be granted if there is "no legally sufficient evidentiary basis for a jury to find for the party on that issue." Fed. R. Civ. P. 50(a). "Although judgment as a matter of law should be granted sparingly, a scintilla of evidence is not enough to sustain a verdict of liability." Lightning Lube, Inc. v. Witco Corp., 4 F.3d 1153, 1166 (3d Cir. 1993) (citation omitted). "In determining whether the evidence is sufficient to sustain liability, the court may not weigh the evidence, determine the credibility of the witnesses, or substitute its version of the facts for the jury's version." Id. (citation omitted).

A.

Defendants first contend that they are entitled to judgment as a matter of law under Rule 50(b) because Graham failed to produce sufficient evidence to prove that the Works qualify for copyright protection as derivative works. A derivative work is "a work based on one or more preexisting works .... A work consisting of editorial revisions, annotations, elaborations, or other modifications which, as a whole, represent an original work of authorship, is a 'derivative work.'" 17 U.S.C. § 101.

To be eligible for copyright protection, a work must not have been previously released into the public domain. As a general rule, material that was publicly distributed without notice of copyright prior to March 1, 1989 has entered the public domain. 17 U.S.C. § 405(a). Graham does not dispute that between 1984 and March 1, 1989, it sent out to clients and prospective clients, without notice of copyright, various surveys and analyses and proposals using language from the Standard Paragraphs, which as noted above served as the precursor to the Works. When Graham published the language in this way, it injected it into the public domain. William A. Graham Co. v. Haughey, 430 F. Supp. 2d 458, 471 (E.D. Pa. 2006).

Graham maintains that those portions of the Works that did not enter into the public domain qualify for copyright protection as a derivative work. A derivative work is entitled to copyright protection only to the extent that it includes the author's subsequent contributions and is distinguishable from the preexisting material contained in the work. 17 U.S.C. § 103(b). This originality requirement means that for Graham to prevail in proving that the Works were validly copyrighted as derivative works, it must show that they contain some "distinguishable variation[s]" from the material that entered the public domain. Dam Things from Denmark v. Russ Berrie & Co., Inc., 290 F.3d 548, 564 (3d Cir. 2002) (citations omitted). Additionally, "to determine whether one work is a derivative of another, the [fact finder] must actually compare the works at issue." Id. at 566.

Defendants assert that in order for the jury to make the requisite comparison, Graham needed to introduce into evidence copies of the pre-1989 versions of the Works. Graham admittedly did not retain copies of all prior versions. As a result, defendants contend that Graham could not meet its burden of showing that the Works include distinguishable variations from the material in the public domain. We disagree. The court charged the jury without objection that: "Copyright protection will extend to the derivative work so long as it contains distinguishable variations *from the language in the public domain* that are more than merely trivial." Jury Instructions, at ¶ 53 (emphasis added). Similarly, in our ruling on the parties' cross-motions for summary judgment, we explained that there was a genuine issue of material fact as to whether the Works were subject to copyright as a derivative work: "[The question of whether distinguishable variations exist] cannot be answered at this time because we do not have access to the *language that was placed in the public domain*, that is, the client proposals distributed prior to March 1, 1989, for comparison with the material in the Works, revised in the 1990's." Graham, 430 F. Supp. 2d at 471-72 (emphasis added).

The prior language needed for comparison with the copyrighted Works is not the past versions of the Works in their entirety, but, instead, only the language from the previous versions that has entered the public domain. Thus, to the extent that there were earlier drafts or parts of drafts of the Works that remained in-house at Graham and were not included in any of Graham's proposals sent to clients, they never entered the public domain and are irrelevant for present purposes. There is no reason to believe, and certainly defendants do not contend, that any language from the early versions of the Works entered the public domain through any other means than through Graham's surveys and analyses and proposals to clients.

By comparing the language in the client proposals distributed prior to March 1, 1989 with the language in the Works as they were copyrighted in the 1990's, the jury would have the information necessary to make the comparison required by Dam Things. In fact, this is precisely the evidence that Graham introduced. Graham vice-president Margaret Jones testified as to which material in the Works was sent to clients prior to March 1, 1989 and which was not, and she prepared a spreadsheet which summarized this information. According to Ms. Jones' comparison, which the jury was entitled to credit, half or more of the language in the Works had not previously been injected into the public domain. The jury had before it as evidence the copyrighted Works, Ms. Jones' spreadsheet, a comparison book that contained copies of the actual language from pre-March 1, 1989 proposals that were sent to clients, and all of the underlying pre-March 1, 1989 proposals in their entirety. The jury could and did find from this evidence that defendants engaged in infringement, that is, that the Works as presented to the Copyright Office contained sufficiently distinguishable variations from the language in the public domain that the Works qualified for copyright protection as a derivative work.

Nor are we persuaded by defendants' additional argument that the Works are not entitled to copyright protection because they contain standard insurance industry terminology. Defendants raised the same argument with respect to certain sections (entitled "Coverage Specifications") of the Standard Proposal in their motion for summary judgment. Graham, 430 F. Supp. 2d at 465. An arrangement of information, such as the Works, that was created independently by the author and "possesses at least some minimal degree of creativity," can be copyrighted as a compilation. Feist Publications, Inc. v. Rural Tel. Serv. Co., Inc., 499 U.S. 340 at 345 (1991). The jury was instructed that "A work that is entirely a collection of unoriginal material, such as facts, nevertheless may be copyrighted if the material is selected, coordinated or arranged in an original fashion." Jury Instructions ¶ 47. Given the low threshold of originality under Feist, there was certainly enough evidence from which the jury could find that the Works were original compilations and that defendants copied extensively from them.

Accordingly, we will deny the defendants' motion for judgment under Rule 50(b) to the extent the motion is predicated on the ground that the Works do not qualify for copyright protection.

B.

Defendants also move for judgment as a matter of law on the ground that plaintiff has not proven a legally sufficient causal connection between any copyright infringement and defendants' profits found by the jury.

When a copyright owner proves that a defendant has infringed a valid copyright, it is entitled to recover damages. The Copyright Act provides that "[t]he copyright owner is entitled to recover the actual damages suffered by him or her as a result of the infringement, and any profits of the infringer that are attributable to the infringement and are not taken into account in computing the actual damages." 17 U.S.C. § 504. In this action, Graham seeks only the infringers' profits. This element of damages includes not only an infringer's direct profits, which are those generated from the sale of an infringing product itself, but also its indirect profits, which have a more attenuated connection to the infringement. Mackie v. Rieser, 296 F.3d 909, 914 (9th Cir. 2002). Here, Graham sought the defendants' indirect profits, that is, the commissions the defendants were paid when their clients purchased insurance through them after receiving written proposals or other explanations containing infringing language.

The Copyright Act creates a burden-shifting scheme: "In establishing the infringer's profits, the copyright owner is required to present proof only of the infringer's gross revenue, and the infringer is required to prove his or her deductible expenses and the elements of profit attributable to factors other than the copyrighted work." 17 U.S.C. § 504(b). The court delineated the copyright owner's burden in its instructions to the jury:

> In calculating the amount of "profits attributable to infringement," plaintiff is first required to prove by a preponderance of the evidence the defendants' "gross revenue reasonably related to the infringement." The gross revenue of [defendants] reasonably related to the infringement is the dollar amount of commissions they earned that can be attributed to the use of proposals containing infringing material .... For the plaintiff to recover damages, there must be a causal connection between the infringement and the commissions earned.

Jury Instructions at ¶ 66.

The term "gross revenue" in the indirect profit context does not mean all profits accrued by an infringer during the period of infringement. Instead, the statute limits the owner's remedy to that revenue which is reasonably attributable to the infringement. Bonner v. Dawson, 404 F.3d 290, 293 (4th Cir. 2005), citing 17 U.S.C. § 504. Accord On Davis v. The Gap, Inc. 246 F.3d 152 (2d Cir. 2001); Polar Bear Products v. Timex Corp. 384 F.3d 700 (9th Cir. 2004). Although the profits attributable to the infringement may be more difficult to quantify in an indirect profits case, the burden on the copyright owner does not change. The copyright owner has the initial burden of establishing whether the infringer profited from the infringement at all. Andreas v. Volkswagen of America, Inc., 336 F.3d 789, 796-97 (8th Cir. 2003). In other words, the owner must show a causal connection between the infringement and the profit stream sought. Bonner 404 F.3d at 294.

The Court of Appeals for the First Circuit has described as "minimal" the copyright owner's initial burden to establish this causal connection. Data General Corp. v. Grumman Systems Support Corp. 36 F.3d 1147, 1173 (1st Cir. 1994). The limited burden is rooted in strong policy considerations. "[T]he burden shifting rule in ... 504(b) is ... an equitable response to an infringer who has frustrated the task of apportionment by co-mingling profits." Id. at 1176. Often, as in this case, the defendant has mixed infringing material with non-infringing material and created one co-mingled work. Equity places the burden on a defendant to unravel the threads. The statute places the burden of apportionment of profits on the infringer, while only requiring the copyright owner to limit the gross profits sought to those profits reasonably attributable to the acts of infringement. 17 U.S.C. § 504(b); Polar Bear Products, 384 F.3d at 715.

The record clearly establishes that Graham met its minimal burden of showing a causal link between the infringing language and defendants' profits. Graham's expert, Dr. Richard Gering, calculated the revenue USI, including Haughey, obtained when clients bought insurance after receiving written proposals with language that matched the copyright protected language of the Works. For the period from 1992 to 2005, Haughey earned $12,250,000 in commissions while all other USI producers earned

$19,570,000 in commissions, for a total of $31,800,000. Dr. Gering excluded from his calculations defendants' revenue resulting from the purchase of insurance by clients which received proposals with no infringing language.

The evidence also demonstrated that the written proposals USI employees presented to clients were an important part of the USI sales process. USI Vice-President Lisa McKernan testified that it was the practice and preference of USI to hand the proposal to the client in a face-to-face meeting so that the client "understands what they're purchasing." McKernan Dep. 21:20 - 23:18, June 15, 2005. James O'Hara, a producer and president of USI's Allentown office, stated that he used the written proposal to help a client "who is not well schooled in the insurance industry, to understand as best as possible what his protection is all about." O'Hara Dep. 169:7 - 170:13, Mar. 10, 2006. Another USI producer, Donald Roberts, testified that the proposal "gives us a chance to prove to our [clients] that we have been able to accomplish what we've set out to accomplish. That the objectives that we had are meaningful to the client and we can walk you through the entire process. To me, that's what establishes the value that we bring[]." Trial Tr. vol. 4, 126:4-23, June 22, 2006. Haughey himself acknowledged that by reviewing the proposal with the client, "a client can be convinced to buy and place its coverage through [him]." Trial Tr. vol. 3, 28:5-8, June 21, 2006. He also recognized the value of having documents such as the Works in obtaining insurance commissions.

If nothing else, the pervasiveness of defendants' use of the language from the Works in their written proposals to clients undermines the credibility of their argument that their copying of the infringing language was of no benefit to them. For thirteen years, USI, its predecessor, FOG, and Haughey employed language from the Works. They incorporated infringing language in 857 sales proposals prepared for 315 different clients. Defendant USI made the content of the Works which FOG and USI referred to as the "proposal and survey and analysis explanation books" available to all of its account managers. USI urged all of the sales support staff to "remember to use the survey and analysis explanation books." Pl.'s Ex. 123.

USI employees continued to employ the infringing language even after USI developed a non-infringing proposal format of its own. In 1997, when FOG and two other companies merged to form USI, a joint committee created its own Standard Proposal, which all staff members were then supposed to use. Haughey admitted that he continued to use language from the Works even after this lawsuit was filed. Dr. Gering's analysis likewise confirms defendants' continued use of infringing language. After the filing of this lawsuit on February 7, 2005, at least 24 infringing proposals were provided to USI clients.

Finally, FOG authorized the hiring of a temporary employee for the specific task of typing the two "huge binders" containing the Works into FOG's word processing files, where they became tools available on FOG's, and later USI's, computer system. Trial Tr. vol. 2, 112:10 - 113:8, June 20, 2006. Paper copies of the Standard Survey and Analysis were also distributed to all producers. The ready availability of language from the Graham's Works to USI employees is particularly significant since the Works were virtually the only source of written insurance policy explanations within USI.

Defendants suggest that the only way Graham could have met its burden to show a causal connection between the infringement and defendants' profits was by: (1) calling a USI customer to testify that it purchased insurance through USI because of the infringing language of the written proposal; (2) obtaining an admission from defendants that the use of the infringing language was important to their business; (3) calling a marketing expert to testify to a causal relationship between the use of infringing language in defendants' written proposals and increases in sales of insurance by defendants; or (4) demonstrating that defendants earned increased commissions from sales of insurance stemming from the use of infringing written proposals. Although the court recognizes that such evidence could surely have helped establish a causal connection, the law does not impose any one of these requirements.

The case law supports the court's view that plaintiff has met its minimal burden to show a causal connection between defendants' infringement and the defendants' profits found by the jury. The Court of Appeals for the Eighth Circuit confronted the issue in Andreas v. Volkswagen of America, Inc., an indirect profits case which involved an infringing advertisement for the Audi TT coupe. 336 F.3d 789. It concluded that the copyright owner's initial burden under § 504(b) was met by simply showing Audi's gross revenue from sale of the TT coupe without including revenue earned from the sale of other Audi automobiles. Id. at 796-97. The infringement consisted only of ten infringing words from plaintiff's poem and was shown in only one of three commercials Audi ran promoting the TT coupe. Id. at 791-92. The court nonetheless concluded that the plaintiff met his burden by showing that "the commercial contributed to the profitable introduction of the TT coupe." The court "reject[ed] the notion that [the copyright owner] was required to put a TT buyer on the stand to testify that she bought the car because of the commercial in order to meet his burden of a causal connection." Id. at 797.

The Court of Appeals for the Fourth Circuit followed a similar analysis in Bonner v. Dawson. 404 F.3d 290. In that case, an architect sued a builder for infringement of his copyright of a building design. Id. The court held that the copyright owner met his initial burden under § 504(b) merely by proving that the builder had made a profit from leasing out space in the infringing building and limiting the profits sought to those generated from leases in that particular building. Id. at

294. The architect did not have to show that the tenants leased space because of the specific design of the structure. Id.

Similarly, in Frank Music Corp. v. Metro-Goldwyn-Mayer, Inc., decided under the Copyright Act of 1909, defendants used five songs from the musical "Kismet" in a musical compilation called "Hallelujah Hollywood," which was staged at the MGM Grand Hotel in Las Vegas. 772 F.2d 505, 510 (9th Cir. 1985). The Kismet segment of the show ran about 1700 times between 1974 and 1976. Id. at 510-11. That segment accounted for 11.5 minutes in a 100 minute performance, although only an estimated six of the 100 minutes contained copyrighted music taken directly from Kismet. Id. Plaintiff introduced MGM's annual report, which stated that "the hotel and gaming operation of the MGM Grand-Las Vegas continue to be materially enhanced by the popularity of the hotel's entertainment[, including] 'Hallelujah Hollywood.'" Id. at 517. The Court of Appeals for the Ninth Circuit held that the plaintiff could recover not only direct profits from the show itself but also indirect profits from the site's hotel and gaming operations because of the "promotional nature" of "Hallelujah Hollywood." Id.

The cases, including those cited by defendants, where courts have found as a matter of law that the copyright owner did not meet the causal connection requirement are distinguishable from the circumstances presented here. In On Davis, an eyeglass designer sued The Gap clothing stores for copyright infringements when one of The Gap's models wore the designer's glasses in an advertisement without permission. 246 F.3d 152. The court ruled that the designer did not meet his burden of establishing a causal connection when the only evidence he introduced regarding The Gap's gross revenue was all $1.668 billion dollars that The Gap's parent company had earned during the duration of the advertising campaign. Id. at 159. The court explained: "Because the ad infringed only with respect to Gap label stores and eyewear ... it was incumbent on [the plaintiff] to submit evidence at least limited to the gross revenues of the Gap label stores, and perhaps also limited to eyewear or accessories. Had [the plaintiff] done so, the burden would then have shifted to the defendant under the terms of § 504(b)." Id. at 160.

The On Davis case also contains an instructive illustration. Although this example is admittedly in a direct profits context, it clarifies the notion that plaintiff's burden is limited. The court explained that a hypothetical copyright owner need only prove the revenue from a defendant's sales of an anthology of poetry as a whole, even if just one poem in the anthology was infringing the owner's copyright. It would then be up to the defendant to demonstrate "the extent to which its profits from the sale of the anthology were attributable to factors other than the infringing poem, including particularly the other poems contained in the volume." 246 F.3d at 160. The example makes clear that when there is both infringing and non-infringing language in a document, it is defendants' responsibility to identify the amount and impact of the non-infringing language on their profits. The Supreme Court has noted this as well, stating: "An infringer who commingles infringing and non-infringing elements 'must abide by the consequences, unless he can make a separation of the profits as to assure to the injured party all that justly belongs to him.'" Harper & Row Publishers, Inc. v. Nation Enterprises, 471 U.S. 539, 567 (1985), citing Sheldon v. Metro-Goldwyn Pictures Corp., 309 U.S. 390, 406 (1940).

Mackie v. Riser, cited by defendants, likewise does not support their position. 296 F.3d 909. There, the Seattle Symphony Orchestra included a picture of a piece of the plaintiff's copyrighted artwork in an advertising brochure soliciting subscriptions to the Orchestra's upcoming series of performances. Id. The plaintiff sought the Orchestra's profits from that entire season as well as for future seasons. Id. at 913. In affirming the district court's grant of summary judgment for the defendants, the Court of Appeals for the Ninth Circuit could find no evidence at all of a causal connection: "Remarkably, [the plaintiff's] own expert stated that he could not 'understand' how it would be possible to establish a causal link between the Symphony's infringing use ... and any [Orchestral] series revenues ...." Id. at 917. Dr. Gering, Graham's expert, made no such concession.

Finally, in Polar Bear Products, the defendant Timex Corp. used the plaintiff's copyrighted film footage featuring action shots of whitewater kayaking to promote one of its lines of watches. 384 F.3d 700. The plaintiff sought, among other things, defendant's profits from watch sales at trade shows where the film footage was shown as well as "enhanced brand prestige" profits resulting from the affiliation of the watch line with the sport of extreme kayaking. Id. at 712. The court made it clear that all the plaintiff had to do was to introduce a "modicum" of evidence that would link the category of profits sought to the infringement. Id. at 715. The plaintiff was not required to "put Timex customers on the witness stand to testify that they purchased watches because of Timex's use of [the kayaking] images." Id. The court determined that testimony from the plaintiff's expert witness calculating the approximate profits Timex gained from trade-show sales where the infringing video was shown was sufficient to establish a causal connection. Id. at 712. With respect to profits arising from "enhanced brand prestige," however, the plaintiff failed to establish the requisite causal connection. The plaintiff sought a significant percentage of Timex's entire net profit gain from a four-year period. The court found that the causal element of the statute had not been satisfied because the plaintiff was unable to demonstrate that Timex's *overall* increased sales revenue was related to the use of the infringing material, which had been shown at only twelve trade-shows and not at any other Timex stores or outlets where many Timex sales occurred. Id. at 715.

The pending action seems to be particularly analogous to those cases where the copyright infringement occurred in an advertising campaign. In those cases, the advertisement typically contains only a small amount of infringing material mixed in with non-infringing material, and the plaintiff seeks the infringer's indirect profits gained from the sale of the advertised article. As detailed above, courts in these cases have allowed recovery. They have never imposed on the copyright owners the onerous obligation to show that it was the specific infringing language that resulted in the defendant's profits or that the customer bought the product because of the infringing segment of an advertisement. Likewise, in Frank, the "Hallelujah Hollywood" show combined a small amount of infringing material with a large amount of non-infringing material. The copyright owner sought profits from the site's hotel and gaming operations, which were only indirectly related to the copyright infringement in the hotel's "Hallelujah Hollywood" production. The court again allowed recovery.

Here, Graham limited its request for damages to the commissions obtained by defendants as a result of the purchase of insurance by their clients which had received proposals containing infringing language. From our reading of § 504(b) and the precedents interpreting it, nothing more was required before the burden shifted to defendants to demonstrate any "deductible" expenses or "the elements of profit attributable to factors other than the copyrighted works." 17 U.S.C. § 504(b). Plaintiff has met the statutory threshold to establish a causal connection between the infringement and defendants' profits. Thus, the motion of defendants under Rule 50(b) for failure to prove the necessary causal connection will be denied.

III.

In addition to its renewed motion for judgment as a matter of law, defendants move in the alternative for a new trial under Rule 59. That Rule provides that "A new trial may be granted ... in any action in which there has been a trial by jury, for any of the reasons for which new trials have heretofore been granted in actions at law in the courts of the United States." Fed. R. Civ. P. 59(a). The standard for granting a new trial, although lower than that required for judgment as matter of law, is still high. Sheridan v. E.I. DuPont de Nemours & Co., 100 F.3d 1061, 1076 (3d Cir. 1996), citing Roebuck v. Drexel Univ., 825 F.2d 715, 735-36 (3d Cir. 1988). "A new trial should be granted only where the great weight of the evidence cuts against the verdict and where a miscarriage of justice would result if the verdict were to stand." Springer v. Henry, 435 F.3d 268, 274 (3d Cir. 2006) (citations omitted). The Third Circuit has explained that "this stringent standard is necessary to ensure that a district court does not substitute its judgment of the facts and credibility of the witnesses for that of the jury." Sheridan, 100 F.3d at 1076 (citations omitted).

A.

Defendants first move for a new trial, claiming that the weight of the evidence does not support the jury's finding that the Works are subject to copyright protection or that there is a causal link between any copyright infringement by defendants and their commission revenues. For the reasons set forth above, the jury had more than sufficient evidence from which to find that the Works were subject to copyright protection. Similarly, the evidence fully supports the jury's finding that Graham met its burden of showing a causal connection between defendants' use of proposals containing infringing language and the profits Graham sought to recover. Accordingly, a new trial on either of these grounds will be denied.

B.

Defendants also move for a new trial with respect to damages on the ground that the great weight of the evidence does not support the jury's finding with respect to Special Jury Interrogatory No. 2 which asked: "Prior to February 9, 2002, should plaintiff have discovered, with the exercise of reasonable diligence, that defendants were infringing its copyrights?" The jury answered "no."

The copyright statute provides that "[n]o civil action shall be maintained under the provisions of this title unless it is commenced within three years after the claim accrued." 17 U.S.C. § 507(b). Graham filed this action on February 8, 2005. Consequently, under ordinary circumstances, the statute of limitations would bar any of Graham's copyright claims that accrued prior to February 9, 2002. However, Graham invokes the discovery rule. Under that rule, a copyright claim does not "accrue" under the statute until "the moment [the copyright owner] has knowledge of the violation or is chargeable with such knowledge." Aug. 15, 2005 Order of Judge Newcomer (Docket Entry 31), citing Roley v. New World Pictures, 19 F.3d 479, 481 (9th Cir. 1994) (other citations omitted).[2] The determination of when knowledge will be imputed to a party under the terms of the discovery rule is presumptively a question for the jury but may be decided as a matter of law when the party invoking the rule does not present sufficient proof to send the issue to a jury. See Smith-Haynie v. District of Columbia, 155 F.3d 575, 579 (D.C. Cir. 1998); Bohus v. Beloff, 950 F.2d 919, 925 (3d Cir. 1991).

Proving the applicability of the statute of limitations usually falls on the defendant as an affirmative defense. See Fed. R. Civ. P. 8(c). When, however, as here, a plaintiff seeks the benefit of the discovery rule, the burden shifts to it to prove that in the exercise of reasonable diligence it should not have discovered the infringement before the statutory bar, in this case, February 9, 2002. See Hayes v. Norfolk Southern

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2. Defendants request that this court reconsider the August 15, 2005 Order of our late colleague Judge Clarence Newcomer to whom this case was initially assigned. After Judge Newcomer's death on August 22, 2005, the action was reassigned to the undersigned. In the August 15 Order, the court held that the discovery rule applies to claims for copyright infringement. We decline to reconsider that ruling. Defendants appear to argue that Auscape Int'l v. Nat'l Geographic Soc., 409 F. Supp. 2d 253 (S.D.N.Y. 2004), and two later cases from the same district have become "controlling law" or rendered Judge Newcomer's decision "clear error," such that the earlier ruling should be reconsidered. Defs.' Mem. of July 27, 2006, n.7 (Docket Entry 144). The court disagrees with this contention and will not reconsider Judge Newcomer's well-reasoned decision, which is supported by substantial authority.

Corp., 25 Fed. Appx. 308, 314-15 (6th Cir. 2001); Gould v. U.S. Dep't of Health and Human Services, 905 F.2d 738, 745-46 (4th Cir. 1990); Clift v. Int'l Union, United Auto., Aerospace & Agricultural Implement Workers of America, 818 F.2d 623, 629 (7th Cir. 1989) (abrogated on other grounds). Here, Graham introduced evidence that defendants began their acts of infringement as far back as 1992. It is well settled in continuing infringement cases such as this that "[e]ach act of infringement is a distinct harm giving rise to an independent claim for relief." Stone v. Williams, 970 F.2d 1043, 1050 (2d Cir. 1992); Roley at 481. Thus, if Graham cannot prove that it was excused from discovering the pre-February 9, 2002 acts of infringements prior to that date, the damages available are limited to defendants' profits arising from acts of infringement occurring on or after February 9, 2002.

There is adequate evidence in the record to establish that Graham did not actually know of the infringement until 2004 when a Graham employee saw a copy of one of USI's infringing proposals. That, of course, is not sufficient to satisfy Graham's burden with respect to the discovery rule. Graham must also prove that in the exercise of reasonable diligence it *should* not have known before February 9, 2002 about any of defendants' acts of infringement occurring before that date. Stone v. Williams, 970 F.2d 1043, 1048 (2d Cir. 1992). When a plaintiff is aware of facts that may furnish it with a cause of action, a duty of inquiry arises and "[p]laintiff is charged with whatever knowledge an inquiry would have revealed." Id. at 1049. Once a plaintiff has knowledge or imputed knowledge of a potential claim, the statute of limitations begins to run. Cetel v. Kirwan Fin. Group, Inc., 460 F.3d 494, 508 (3d Cir. 2006).

Although our Court of Appeals, so far as we can ascertain, has never addressed the question of inquiry notice in a copyright action, it has frequently confronted that issue in securities fraud and RICO cases. We see no reason why its analysis in those cases should not apply with equal force here. In a recent RICO action, the court employed a two-prong test to determine whether a plaintiff will be deemed to have notice of its claims. Matthews v. Kidder, Peabody & Co., Inc., 260 F.3d 239, 252 (3d Cir. 2006), see also Benak ex rel. Alliance Premier Growth Fund v. Alliance Capital Mmgt., L.P., 435 F.3d 396, 400-01 (3d Cir. 2006) (securities fraud). First, the defendant must come forward with evidence of the existence of "storm warnings," or "suspicious circumstances," that would alert a reasonable person that an investigation should be made. Id. After the defendant has done so, the burden is then upon the plaintiff to establish that it was reasonably diligent in making an adequate investigation but was still unable to discover its injuries. Id. Thus, when a plaintiff has not been reasonably diligent in investigating "storm warnings" or "suspicious circumstances," it may not invoke the discovery rule and instead will be deemed to have notice of its claims. Id.; Benak, 435 F.3d at 400-01.

We now turn to the evidence of "storm warnings" or "suspicious circumstances." We start with the fact that the two binders containing the infringed Works were quite voluminous with each containing hundreds of pages. Copies were issued to only eight Graham employees and were very tightly controlled by Margaret Jones, a vice president and the manager of the technical development department at Graham. She testified at trial:

> ... I prepared [the binders containing the Works], with my assistant. Back then, we didn't have word processing like we do today. So, we were the ones that prepared – we would go collect – well, first time, we prepared the green binders that we gave to all of our producers, and we're the ones that printed out all the pages. We're the ones that put copyright notice on that white glossy sheet. And we took them around and we gave them to each of our producers. And then, whenever we would make changes to the standard proposal, we would go collect all eight copies. Bring them all the changes and we would distribute them. We control the entire process.

Trial Tr. vol. 1, 156:9 - 156:22, June 19, 2006. Graham emphasized during the trial how important the binders were to it. Graham's president, William Graham, testified that the Works are "absolutely essential" to his company's business and that they are "probably the most important way that we can establish creditability [sic] with a perspective [sic] client." Trial Tr. vol. 2, 55:5 - 55:20, June 20, 2006. He explained that, because the insurance industry is "so confusing," it is the use of the simplified language in the Works that allows Graham to "get in front of hundreds of businesses" (establish its competitive edge) and to "tell a customer, we know what we are doing." Id. at

55:25 - 57:12. Graham created the Works not simply to be read by its producers but with the explicit intention that the producers would copy the relevant parts into the written proposals presented to Graham's clients.

Further, it was undisputed that Graham expected Haughey to return the copyrighted binders when he left Graham's employ in 1991. At that time, Graham and Haughey negotiated a contractual agreement, dated September 11, 1991, whereby Haughey specifically reaffirmed his obligation under his 1985 and 1989 employment contracts to return all Graham Company books, documents and other property upon his departure. The employment contract stated that:

> All books, cards, records, accounts, files, notes, memoranda, lists and other papers or the information contained therein or obtained therefrom, connected with or arising from or created in the activities and/or affairs of Employer, in the charge or possession of Employee, is the property of Employer and ... [a]t the termination of this Agreement ... *shall be turned over to and delivered to Employer without hesitancy or delay*. (emphasis added).

1989 Producer Employment Agreement. Due to the size, significance, and limited number of copies of the Works, Haughey's failure to return his copy would have been obvious. Moreover, there was Haughey's recent reaffirmation of his contractual obligation to return the binders. Indeed, according to Margaret Jones, a Graham vice president, Graham was aware that the binders had never been turned in. Ms. Jones testified:

> Q: Did you ever say to anyone involved in the exit process, we never got back the

binders that we gave to Tom Haughey of the two standard works?

A: I never said that to anybody.

Q: You had been keeping track of the fact that they never came back and were out there somewhere, did you?

A: Correct.

Trial Tr. vol. 1, 201:8 - 201:14, June 19, 2006. In sum, the evidence established without contradiction that Graham knew or should have known that a copy of the binders remained in Haughey's possession after he was terminated.

Of course, it is the use or copying of the contents of the binders, not simply Haughey's possession of the physical binders themselves, that is critical in this copyright infringement action. Graham created the Works not as an ornament but with the intention that they be copied into the surveys and analyses and the proposals submitted to its clients. It is undisputed that Graham knew that Haughey was leaving it to work for FOG, a competing insurance brokerage firm and not, for example, going into retirement or another field of endeavor. Graham was aware that Haughey's position at FOG would be a producer, the same position he held at Graham, and understood that among Haughey's responsibilities would be the preparation of written client proposals. Haughey's departure for a competitor is the reason the 1991 Termination Agreement between Graham and Haughey was negotiated and signed. In addition, on November 25, 1991, Graham, Haughey and FOG entered into a separate agreement whereby FOG purchased from Graham certain accounts for which

Haughey had been responsible at Graham. As sophisticated insurance professionals, those in management at Graham knew how valuable the binders would be in the hands of a competitor. Graham had to know that without the immediate return of the binders it was quite possible, if not likely, that Haughey and FOG would copy their contents into client proposals, for that was the only reason for Haughey and FOG to retain the binders. Graham could not have reasonably believed that the unreturned binders would sit unopened, collecting dust, on Haughey's desk once he was working at FOG.

Graham contracted to have the binders "turned over and delivered to [it] without hesitancy or delay" in order to prevent Haughey and FOG from using and copying their contents in connection with their competing insurance business. Graham could not have thought that the copyrights on the Works in and of themselves would serve as a sufficient deterrent to infringement. Otherwise, it would not have negotiated a reaffirmation of Haughey's obligation to turn over the binders upon his departure. Haughey's possession of the binders cannot realistically be separated from the copying of contents of the binders into client proposals. Clearly, Graham was aware of sufficient facts to put it on notice that Haughey and FOG might be engaging in copyright infringement long before February 9, 2002. Graham had information upon Haughey's departure that would cause a person, in the exercise of reasonable diligence, to inquire of Haughey and FOG about the possession, use and copying of the information contained in the binders and even to demand their immediate return before any damage to Graham occurred. Instead, Graham ignored the "storm warnings" or "suspicious circumstances" and made no investigation at all. Benak, 435 F.3d at 400-01.

Graham makes two arguments attempting to excuse its inaction. First, it contends that Haughey and FOG, if asked, would have lied about the whereabouts and use of the missing binders if it had made inquiry in the 1990's.[3] In effect, Graham is speculating that fraudulent concealment would have occurred at that time. Second, Graham makes an eleventh-hour assertion that it would not have discovered the copyright infringement even if it had made inquiry at the time of Haughey's departure because Haughey did not begin copying the language from the Works until some months later.

Neither of Graham's arguments has merit. The Court of Appeals has instructed that "Plaintiffs cannot, *post hoc*, excuse a failure to inquire by demonstrating the difficulty they would have had attaining relevant information. Therefore, if storm

3. The apparent basis for Graham's argument on this point is an interrogatory in which Haughey was asked about the source of the language used in the Burns & McBride proposal, which Graham obtained in November 2004 and from which it discovered USI's infringement of the Works. In his verified answer to the interrogatory, Haughey cited a proposal he had previously prepared for another client, which also used infringing language and was the direct template for the Burns & McBride proposal. He did not mention the Works themselves, which were the original source. Graham maintains that this omission shows that Haughey would have lied to Graham, had Graham asked him whether he was copying the Works 13 years earlier. Significantly, Graham's counsel did not make this argument in its summation to the jury.

warnings existed, and the [plaintiff] chose not to investigate, we will deem [it] on inquiry notice of [its] claims." Beak, 435 F.3d at 400-01 (citations omitted). The Court of Appeals explained on another occasion that "excus[ing a party's] lack of inquiry, because, in retrospect, reasonable diligence would not have uncovered [its] injury ... would, in effect, discourage investigation." Matthews, 260 F.3d at 252 n.16.

Under the circumstances, it was against the great weight of the evidence for the jury to answer "no" to Special Jury Interrogatory 2, which asked: "Prior to February 9, 2002, should plaintiff have discovered, with the exercise of reasonable diligence, that defendants were infringing its copyrights?" Accordingly, we will grant a new trial on this issue. Because the amount of damages is inextricably bound up with the question of the application of the statute of limitations, we also will grant a new trial as to damages.

C.

Finally, defendants claim that a new trial is appropriate because the weight of the evidence does not support the jury's apportionment of defendants' commissions between those that are attributable to the infringement and those that are attributable to factors other than the infringement. Defendants also request a new trial on the basis that the amount of the verdict is excessive. Defendants request in the alternative that the damages awarded to Graham should be remitted. Since the court will grant a new trial on the issues of the applicability of the statute of limitations and of damages, the court will not reach these additional issues.

IV.

Plaintiff has also filed motions with the court for pre-judgment and post-judgment interest. The grant of a new trial on the issues of the applicability of the statute of limitations and damages obviates the need to address these motions at this time. We will deny them without prejudice.

IN THE UNITED STATES DISTRICT COURT
FOR THE EASTERN DISTRICT OF PENNSYLVANIA

WILLIAM A. GRAHAM COMPANY	:	CIVIL ACTION
	:	
v.	:	
	:	
THOMAS P. HAUGHEY, et al.	:	NO. 05-612

ORDER

AND NOW, this 21st day of November, 2006, for the reasons set forth in the accompanying Memorandum, it is hereby ORDERED that:

(1) the motion of defendants Thomas P. Haughey and USI Midatlantic, Inc. for judgment as a matter of law is DENIED;

(2) the motion of defendants for a new trial on the issues of the statute of limitations and damages is GRANTED;

(3) the motion of plaintiff William A. Graham Company to amend judgment to include prejudgment interest is DENIED without prejudice; and

(4) the motion of plaintiff to alter judgment to include post-judgment interest is DENIED without prejudice.

BY THE COURT:

/s/ Harvey Bartle III
C.J.